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December 17, 2003

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Ms. Marlene H Dortch
Secretary
Federal Communications Commission
Office of the Secretary
9300 East Hampton Drive
Capitol Heights, Maryland 20743

Section 272 Biennial Report for SBC Communications, Inc.
EB Docket No. 03-199

Dear Ms Dortch

Pursuant to Section 30(e) of the "General Standard Procedures for Biennial Audits Under Section 272 of the Communications Act of 1934, as amended" in the above referenced matter ("Agreed Upon Procedures program"), Ernst & Young is filing our Report of Independent Accountants on Applying Agreed-Upon Procedures with the following appendices

- Appendix A - Results of Agreed-Upon-Procedures
- Appendix B – Final Agreed-Upon Procedures
- Appendix C – Statement of the Joint Federal/State Oversight Team for the SBC Communications Inc Section 272 Biennial Audit
- Appendix D – Comments from SBC Communications Inc

This document will also be filed electronically through the Federal Communication Commission's Electronic Comment Filing System

Sincerely,

Daniel J Dolan
Partner

cc Arkansas Public Service Commission
California Public Utilities Commission
Connecticut Department of Public Utility Control
Illinois Commerce Commission
Indiana Utility Regulatory Commission
Kansas Corporation Commission
Michigan Public Service Commission
Missouri Public Service Commission
Nevada Public Utilities Commission
Ohio Public Utilities Commission
Oklahoma Corporation Commission
Public Utility Commission of Texas
Wisconsin Public Service Commission

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SBC Communications Inc.

Report of Independent Accountants on Applying Agreed-Upon Procedures

December 15, 2003

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Appendix D – Comments from SBC Communications Inc1

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Report of Independent Accountants on Applying Agreed-Upon Procedures

To the Management of SBC Communications Inc.

We have performed the procedures enumerated in Appendix B, which were agreed to by management of SBC Communications Inc. ("SBC") and the Joint Federal/State Oversight Team ("Joint Oversight Team")[1] (collectively, the "Specified Users"), solely to assist these specified parties in evaluating SBC's compliance with the requirements of Section 272 of the Communications Act of 1934, as amended ("Section 272 Requirements")[2], during the period from July 10, 2001 to July 9, 2003 ("the Engagement Period"). This engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the Specified Users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Appendix B either for the purpose for which this report has been requested or for any other purpose.

The procedures performed and the results obtained are documented in Appendix A. These procedures and the results are not intended to be an interpretation of any legal or regulatory rules, regulations or requirements

We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on SBC's compliance with the Section 272 Requirements. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of management of SBC and the Joint Federal/State Oversight Team, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Ernst + Young LLP

December 15, 2003

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[1] The "Joint Federal/State Oversight Team" is composed of staff members from 10 state regulatory agencies and the Federal Communications Commission ("FCC") SBC operates in the following 13 states Arkansas, Kansas, Missouri, Oklahoma, Texas, California, Nevada, Illinois, Indiana, Michigan, Ohio, Wisconsin, and Connecticut Representatives from California, Michigan and Nevada did not participate with the Joint Federal/State Oversight Team

[2] These requirements are contained in 47 U S C Section 272(b), (c) and (e) of the Communications Act of 1934, as amended (the "Act"), and in 47 C F R Section 53 209(b) of the Federal Communications Commission's rules and regulations

APPENDIX A

Results of Agreed-Upon Procedures

<u>OBJECTIVE I</u>. Determine whether the separate affiliate[1] required under Section 272 of the Act has operated independently of the BOCs[2].

1. Inquired of management whether there have been any changes in the certificates of incorporation, bylaws and articles of incorporation of each Section 272 affiliate[3] covered in the first biennial report. Management represented that during the Engagement Period, ACI merged into SBCS effective December 24, 2002. Also five subsidiaries of ACI were dissolved during the Engagement Period: Southwestern Bell Communications Services – Maryland, Inc. was dissolved on December 20, 2002; Ameritech Communications Inc., of Illinois ("AcoI"), Ameritech Communications Inc., of Wisconsin ("ACoW") and Ameritech Global Gateway Services, Inc. were dissolved on December 23, 2002; and, Ameritech Communications International, Inc. was dissolved on December 26, 2002. Of these five subsidiaries, only ACoI and AcoW were subject to Section 272. ACI had no Section 272 subsidiaries in the states of Indiana, Ohio and Michigan. SBC represented that no Section 272 affiliates were established during the Engagement Period.

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[1] The term "affiliate" shall refer to a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (See Section 3 of the Communications Act of 1934, as amended)

[2] "BOC" refers to Bell Operating Companies If the BOC transfers or assigns to an affiliated entity ownership of any network elements that must be provided on an unbundled basis pursuant to Section 251(c)(3), such entity shall be subject to all of the requirements of the BOC For purposes of this engagement, in the event that the BOC provides exchange and/or exchange access services on a retail or wholesale basis exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc , of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities shall also be subject to all of the relevant nondiscriminatory requirements of Objectives VII through XI of this document Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), shall be excluded from these requirements

[3] The agreed-upon procedures are required to be performed, unless otherwise specified, on all Section 272 affiliates as defined by the Act For the purposes of this engagement, the terms "Section 272 affiliate" and "separate affiliate" referred to Southwestern Bell Communications Services, Inc. ("SBCS"), doing business as SBC Long Distance ("SBCLD"), any other affiliate that originates InterLATA telecommunications services in the SBC Communications Inc region that is subject to Section 272 separation requirements, Ameritech Communications, Inc ("ACI"), and any affiliate that engages in manufacturing activities as defined in Section 273(h) ACI merged into SBCS effective December 24, 2002 The procedures were performed on ACI and SBCS from July 10, 2001 to December 24, 2002 and for SBCS only from December 24, 2002 to July 9, 2003, to the extent relevant.

2. Obtained[4] and inspected the corporate entities' organizational charts of the SBC BOCs[5], Section 272 affiliates and SBC Communications Inc. and confirmed with legal representatives of the BOCs, Section 272 affiliates and SBC Communications Inc. the legal, reporting and operational corporate structure of the Section 272 affiliates. Noted that the inspected organizational charts and written confirmations obtained from legal representatives of SBC stated that SBCS is a wholly owned subsidiary of SBC Communications Inc., ACI was a wholly owned subsidiary of Ameritech Corporation, which in turn is 100% owned by SBC Communications Inc. and ACoI and ACoW were wholly owned by ACI. Noted that ACoI, AcoW and Ameritech Global Gateway Services, Inc. were dissolved effective December 23, 2002 and ACI merged into SBCS effective December 24, 2002, leaving SBCS as the one operational Section 272 affiliate. Also noted that Ameritech Communications International, Inc. was dissolved on December 26, 2002.

3. Inquired of management, and noted that non-affiliated third-party entities perform operations, installation and maintenance functions ("OI&M") over facilities either owned by a Section 272 affiliate or leased from a third party by a Section 272 affiliate A list of the third-party entities that provided OI&M services to the Section 272 affiliates is included in the workpapers.

   a. Obtained management's definition and interpretation of OI&M functions. SBC defined operations as the day-to-day running of switching and transmission facilities SBC defined installation as not only the actual work associated with installation, but also the engineering of how the switches will be installed. SBC defined maintenance as the routine or emergency care of facilities and software. SBC also indicated that OI&M does not include high-level, fundamental architecture and technology planning and design. SBC represented that this

---

[4] For purposes of this engagement, the term "obtained" referred to in Appendix A and "obtain" as referred to in the procedures listed in Appendix B, shall mean that the E&Y physically acquired, and generally retained in the working papers, all documents supporting the work effort performed to adequately satisfy the requirements of a procedure. E&Y used professional judgment to decide which items were too voluminous to include in the working papers E&Y included a narrative description of the size of such items as well as any other reasons for their decision not to include them in the working papers

[5] For the purposes of this engagement, the term "SBC BOC" shall refer to the SBC operating telephone companies, operating as incumbent local exchange carriers ("ILECs"), and include the following. Illinois Bell Telephone Company ("Illinois Bell"), Indiana Bell Telephone Company, Incorporated ("Indiana Bell"); Michigan Bell Telephone Company ("Michigan Bell"), Nevada Bell Telephone Company ("Nevada Bell"); The Ohio Bell Telephone Company ("Ohio Bell"), Pacific Bell Telephone Company ("Pacific Bell"), Southwestern Bell Telephone, L.P ("SWBT"), Wisconsin Bell, Inc ("Wisconsin Bell"); and any successor or assign of such company as described in ¶10 of the procedures Although The Southern New England Telephone Company and The Woodbury Telephone Company (collectively referred to as "SNET") are not BOCs as defined by the Act, for purposes of the Biennial Audit, they will be treated as SBC BOCs with respect to the structural, transactional, and nondiscriminatory requirements of Sections 272(b) and 272(e) to the extent they are included in Objectives I through XI

definition of OI&M was provided to the FCC in SBC's Petition for Forbearance from OI&M Requirements, CC Docket No 96-149 and Docket No. 98-141.

b. SBC represented that the SBC BOCs and/or other non-272 affiliates performed none of the above-described OI&M services on facilities either owned by the Section 272 affiliate or leased from a third party by the Section 272 affiliate.

c. SBC represented that none of the above-described OI&M services were performed by the Section 272 affiliate on facilities either owned by SBC BOCs or leased from a third party by SBC BOCs.

4. SBC represented that the SBC BOCs did not provide or offer research and development activities or services to the Section 272 affiliates or unaffiliated entities during the Audit Test Period[6]

5. Obtained the balance sheet of SBCS, the only Section 272 affiliate as of the end of the Audit Test Period, and a detailed listing of all fixed assets, including capitalized software. Noted that the fixed asset balance shown on the balance sheet of $133,129,108 agreed with the total of the detailed fixed asset listing, the construction work in progress detailed listing and the clearing account[7] listing as of March 31, 2003 (collectively "fixed asset listing"). Noted that the fixed assets records of ACI were merged into SBCS's fixed asset records in December 2002.

   Verified by observation that the detailed fixed asset listing obtained above included 2,257 assets and totaled $118,157,815. Reviewed the detailed fixed asset listing for the inclusion of information in the five fields of data required by this procedure: description; location of each item; date of purchase; price paid and recorded and from whom the asset was purchased or transferred. Noted that all required data fields were populated except for the "from whom the asset was purchased or transferred" field for 1,567 fixed assets totaling $72,900,573. Also noted that 1,561 of the 1,567 assets with the omitted data field totaled $67,829,888 and were placed in service before July 9, 2000. In Ernst & Young's report dated December 17, 2001, for the period July 10, 2000 to July 9, 2001 ("Prior Report"), 456 assets totaling $40,897,327 did not include information in the data field "from whom the asset was purchased or transferred " SBC represented in its Management Response to the Prior Report that the missing data was due to a systems conversion in which the data field was omitted for certain assets. Noted that 6 of the 1,567 assets totaled $5,070,685 and were placed in service between July 10, 2000 and July 9, 2001. Noted

[6] The "Audit Test Period" is defined in the procedures as July 10, 2001 to March 31, 2003. The "Engagement Period" is defined in the procedures as July 10, 2001 to July 9, 2003

[7] SBC uses a "clearing account" to temporarily record assets purchased prior to their specific assignment to accounts within the fixed asset ledgers.

that all assets placed in service during the Audit Test Period included vendor names in the "from whom the asset was purchased or transferred" data field.

Determined by obtaining verification from SBC and by reviewing the descriptions of the assets which fixed asset accounts related to transmission and switching facilities, including capitalized software, and the land and buildings where those facilities are located Reviewed the dates on the listing and noted which assets included transmission and switching facilities general ledger accounts that were placed in service since July 10, 2001

From the total population of 472 transmission and switching facilities fixed assets identified above, randomly selected 85 items and inspected documentation that revealed ownership of the items selected. Noted per inspection of invoices that none of the items were jointly purchased by the Section 272 affiliate and the SBC BOCs.

<u>OBJECTIVE II</u>. Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records and accounts in the manner prescribed by the Commission that are separate from the books, records and accounts maintained by the BOCs.

1. Obtained SBCS's general ledger as of the end of the Audit Test Period, March 31, 2003, and matched the title on the general ledger with the name of the affiliate on the certificate of incorporation. Noted that a separate general ledger was maintained from the SBC BOCs. Reviewed the general ledgers for special codes to link SBCS to the SBC BOCs and noted none.

2. Obtained SBCS's financial statements and lease agreements as of the end of the Audit Test Period, March 31, 2003 Identified, in the workpapers only, leases that had annual obligations listed in the lease agreement of $500,000 or more. For all leases, noted the terms and conditions and determined that the leases have been accounted for in accordance with Generally Accepted Accounting Principles ("GAAP"). Obtained SBCS's lease accounting policies and noted the policies are in accordance with GAAP.

<u>OBJECTIVE III</u>. Determine whether the separate affiliate required under Section 272 of the Act has officers, directors and employees that are separate from those of the BOCs.

1. Inquired of SBC and documented that the Section 272 affiliates and the SBC BOCs maintained separate boards of directors, separate officers and separate employees during the Engagement Period For each SBC BOC and Section 272 affiliate, obtained a list of the names of officers and directors of the SBC BOCs and Section 272 affiliates, including the dates of service for each officer and board member for the Engagement Period. Compared the list of officers and directors of the SBC BOCs with the list of officers and directors of the Section 272 affiliates, and noted no officers or directors appearing simultaneously on both lists

2. From their respective Human Resource Departments, obtained a listing of names and social security numbers of all employees of each Section 272 Affiliate and each SBC BOC for the Audit Test Period. Ran a program, which compared the names and social security numbers of employees and noted no employees appearing on both lists simultaneously.

<u>OBJECTIVE IV</u>. Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOCs.

1. SBC represented that the Section 272 affiliates had no debt agreements/instruments or credit arrangements with unaffiliated lenders and major suppliers of goods and services during the Engagement Period.

   Documented that the Section 272 affiliates had revolving lines of credit with SBC Communications Inc. and Ameritech Corporation that extended credit to the Section 272 affiliates through the consolidated cash management process. Reviewed the Section 272 affiliates' revolving lines of credit and noted no guarantees of recourse to the SBC BOCs' assets, either directly or indirectly through another affiliate.

2. Identified the lease agreements obtained in Objective II, Procedure 2 that were entered into or modified during the Engagement Period and had annual obligations greater than $500,000 and reviewed these lease agreements and documented that there were no instances in which a Section 272 affiliate's lease agreement had recourse to the SBC BOCs' assets either directly or indirectly through another affiliate.

3. Requested positive written confirmation from the Section 272 affiliates' lessors for all leases with unaffiliated entities with annual payments in excess of $500,000 that were entered into or modified during the Engagement Period. Confirmations were not requested from affiliates Noted that there were no lease agreements with unaffiliated entities with annual payments less than $500,000 that were entered into or modified during the Engagement Period. Received one response out of three requests sent; the response confirmed that there was no recourse either directly or indirectly to the assets of any of the SBC BOCs. For the other two leases with annual payments in excess of $500,000, received a telephone response indicating that the lessor would not respond to a confirmation request.

<u>OBJECTIVE V</u>. Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the BOCs on an arm's length basis with the transactions reduced to writing and available for public inspection.

<u>OBJECTIVE VI</u>. Determine whether or not the BOCs have accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

1 Documented, in the workpapers, the procedures used by the SBC BOCs to identify, track, respond to and take corrective action to competitors' complaints relating to alleged violations of the Section 272 Requirements.

Obtained from the SBC BOCs a list of all FCC formal complaints, as defined in 47 CFR 1.720; FCC informal complaints, as defined in 47 CFR 1.716; and any written complaints made to a state regulatory commission from competitors filed during the Engagement Period involving alleged noncompliance with the Section 272 Requirements, including complaints submitted by competitors related to the provision or procurement of goods, services, facilities and information, or in connection with the establishment of standards.

- Allegations of cross-subsidies – Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period

- Allegation of discriminatory provision or procurement of goods, services, facilities customer network services information (excludes customer proprietary facilities, customer network information ("CPNI")), or the establishment of standards – Noted *one* complaint received and resolved during the Engagement Period and no complaints open from the prior Engagement Period.

  - On August 30, 2001, TelOne Telecommunications, Inc , TelCam Telecommunications Company of the Americas, Inc., and CQ International Communications, Inc. filed a complaint with the Public Utility Commission of Texas alleging discriminatory behavior by SWBT because SWBT attempted to terminate the complainants' billing under the existing Billing and Collection ("B&C") agreement with its billing aggregator. SWBT's concern was that it had received excessive cramming complaints based on charges the complainant passed to SWBT for billing. This complaint was settled on February 25, 2002 and the settlement upheld SWBT's right to terminate billing in the event of excessive cramming complaints. Complainants withdrew their case as a part of the settlement and this proceeding is now closed

- Allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems - Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period.

- Allegations of discriminatory availability of exchange access facilities - Noted no complaints received during the Engagement Period and no complaints open from the prior Engagement Period

- Allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate - Noted no complaints received during the Engagement Period and two complaints open from the prior Engagement Period.

  - On September 22, 2000 (open as of the end of the prior Engagement Period) AT&T Communications of Texas, L.P. ("AT&T") filed a complaint with the Public Utility Commission of Texas ("PUCT") alleging that the combination of SWBT's high rates for switched access services and SBCS's allegedly predatory prices for long distance services were resulting in a price squeeze designed to drive competitors out of the Texas long distance market. AT&T further alleged that the only way the PUCT could remedy this price squeeze would be to reduce SWBT's switched access rates to cost or, at a minimum, to parity with SWBT's interstate switched access rates. SWBT's motion to dismiss the complaint on the basis that the relief sought exceeded the PUCT's authority was denied by the PUCT. SWBT then sought relief in the courts and eventually obtained a temporary injunction against the PUCT. On December 5, 2001, AT&T amended its complaint before the PUCT and eliminated the allegations or claims related to predatory pricing and attempted predatory pricing. On July 11, 2003, the Court of Appeals for the Third District of Texas overruled the PUCT's decision as well as an additional issue raised by AT&T.

  - On March 6, 2001, AT&T Communications of the Southwest, Inc. filed an emergency motion in SBCS's tariff approval docket pending with the Kansas Corporation Commission, alleging that SBCS's rates were unlawful, unduly, preferential, and anti-competitive. On May 15, 2001, an agreement was reached between SWBT, AT&T and others that reduced SWBT's intrastate access rates to parity with SWBT's interstate access rates, and AT&T agreed to withdraw its complaints in

SBCS's tariff proceedings. The complaint was withdrawn on October 1, 2001.

2 Obtained from the SBC BOCs and each Section 272 affiliate current written procedures for transactions with affiliates and compared these procedures with the following FCC rules and regulations.

- 47 C.F.R. Sections 32.27, 53.203(e), and 64.901;
- Paragraphs 122, 137, 183, and 265 of the Report and Order in CC Docket No. 96-150, issued December 24, 1996, concerning Accounting Safeguards Under the Telecommunications Act of 1996;
- Paragraphs 180, 193, and 218 of the First Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 96-149, issued December 24, 1996, concerning Non-Accounting Safeguards under Sections 271 and 272 of the Communications Act of 1934, as amended, and;
- CC Docket No. 00-199, In the Matter of 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2; Report and Order and Further Notice of Proposed Rulemaking, Appendix F Section 32.27.

Noted that the SBC BOCs' written policies and procedures addressed the above FCC rules and regulations except that the BOC certification statement required by CC Docket 96-150, paragraph 122 was not addressed in the written policies and procedures. SBC represented that even though the required BOC certification statement is not addressed in its written policies and procedures, the required BOC certification statement is maintained in the SBC BOC central files.

3. Inquired and documented how the SBC BOCs and each Section 272 affiliate disseminate the FCC Rules and Regulations and raise awareness among employees for compliance with the affiliate transaction rules by noting that the Section 272 Oversight Team, operating at the parent company level, has overall responsibility to coordinate dissemination of the obligations created by the Section 272 requirements across the entire company including the SBC BOCs and the Section 272 affiliates. SBC represented that employees are made aware of the structural, transactional and non-discrimination obligations of Section 272 in various ways. SBC represented that the Section 272 Oversight Team established a Section 272 compliance Intranet site and posted various policy, training and reference materials to this site SBC represented that the Section 272 Oversight Team worked with various business units to designate Section 272 compliance coordinators who help assure that management employees are trained on Section 272 issues as necessary. The Affiliate Oversight Group also maintains a site on the SBC Intranet that contains SBC policies and practices, reference materials and affiliate agreements

SBC represented that the training provided for the SBC BOCs addressed key topics related to the structural, transactional and non-discrimination obligations of Section 272 such as what services could be provided to the Section 272 affiliates, the required terms and conditions for providing services, the protection of proprietary information and permitted and prohibited activities when performing joint marketing. The SBC BOCs provided this training on a one-time basis to all managers providing support for or services to the Section 272 affiliates. This training was presented in both a live and on-line format throughout the Engagement Period. The materials presented in this training cover history of Section 271 and 272 requirements, types of interLATA services, SBC Section 272 affiliates, activities subject to the affiliate safeguards, joint marketing exception, structural and transactional requirements, nondiscrimination requirements, accounting requirements, sunset of Section 272 and why Section 272 compliance is important.

SBC represented that the SBC BOCs and Section 272 affiliates developed numerous documents containing the Methods and Procedures ("M&P") associated with the Section 272 requirements. M&Ps were a primary training tool to require that employees perform specific business procedures in compliance with the Section 272 requirements. SBC represented that it is SBCS's policy that employees transferred or hired into SBCS must receive Section 272 training on their first day of employment with SBCS.

In addition, SBC represented that employees of the SBC BOCs and the Section 272 affiliates attended sessions of the Section 272 Compliance training presented by the Section 272 Oversight Team. This training was presented in live sessions at various company locations or by conference call during the Engagement Period. The materials presented in this training cover history of Section 271 and 272 requirements, types of interLATA services, SBC Section 272 affiliates, activities subject to the affiliate safeguards, joint marketing exception, structural and transactional requirements, nondiscrimination requirements, accounting requirements, sunset of Section 272 and why Section 272 compliance is important

SBC represented that the Section 272 Oversight Team also made training materials available to all employees, including employees of the SBC BOCs and Section 272 affiliates, via the SBC Intranet. SBC maintained the Intranet site with various training materials and online courses. SBC represented that the following methods of communication were used during the Engagement Period to disseminate Section 272 compliance information to employees:

- SBC's Compliance Plan (SNET Consent Decree), posted on the SBC Intranet site.
- SBC's Employee Compliance Guide, posted on the SBC Intranet site.
- Section 272 Compliance Training (as discussed above) was provided to SBC managers providing support for, or services to the Section 272 affiliates This

training was provided as Section 271 approval was received for each state and was provided with the same curriculum throughout the Engagement Period as refresher training for SBC managers in states that previously received Section 271 approval. The Section 272 Compliance Training was presented in all of the following formats during the Engagement Period:

- 90-minute live training presentations conducted by the Section 272 Oversight Team in various SBC cities annually.
- 90-minute conference call training sessions scheduled on a monthly basis.
- Specialized or targeted training for specific business units as needed.
- Training schedule and registration is available on SBC Intranet site.

- SBC Policy Letters to Employees to targeted business units or through broadcast e-mail messages.
- Section 272 Oversight Team and business unit 272 Compliance coordinators.
- SBC Affiliate Oversight Group Intranet site
    - Annual reminder
    - SBC Operating Practices ("OP")– OP 125 Affiliate Transactions

SBC represented that frequency of the training varied by region In the SWBT region where long distance approval was obtained in 2000 and 2001, the Section 272 Compliance training was provided as refresher training throughout the Engagement Period. In the Pacific Bell and Nevada Bell regions, where long distance approval was obtained in late 2002 and early 2003, SBC focused on initial presentations of the Section 272 Compliance training.

Code of Business Conduct

SBC represented that each SBC employee is expected to abide by the standards embodied in the SBC Code of Business Conduct. Toward this objective, all employees have the following annual responsibilities with regard to the Code's administration.

- Ensuring that each employee they supervise annually receives and reads a copy of the Code of Business Conduct and signs a copy of the Acknowledgment Form annually;
- Ensuring that employees are aware that they may make a good faith report of a violation or suspected violation of the law or the Code without fear of reprisals;
- Ensuring that any standards and procedures developed for their areas comply with the Code and are communicated to affected employees; and
- Reporting any possible violations of the Code of Business Conduct and/or situations, which could result in Code violations or be perceived as Code violations to higher level management.

Competition Guidelines
SBC represented that the Company's Competition Guidelines are supplemental to the Code of Business Conduct, and management employees are required to review the Competition Guidelines every three years (annually in Texas) with the review documented in the employee's personnel record/file. The Competition Guidelines are made available on the SBC Intranet site.

Section 272 Employee Compliance Guide
SBC represented that the Section 272 Oversight Team developed an employee compliance guide specifically for SBC Section 272 Requirements. This guide is available to employees on the SBC Intranet site and employees are required to review the Section 272 Compliance Guide as a part of their annual mandatory coverages. SBC also represented that upon obtaining Section 271 authorization in a particular SBC state, employees are provided with reminder notices of their obligations to comply with the Section 272 Requirements and are directed to refer to the Section 272 Employee Compliance Guide

Noted that employees responsible for affiliate transactions were supervised by a Section 272 compliance coordinator, identified by each business unit participating in affiliate transactions, whose role was to ensure that their business unit's employees were properly trained in the Section 272 requirements. A Section 272 compliance coordinator has been designated in each business unit to oversee all Section 272 issues within the business unit, including the activities of business unit employees that engage in transactions with the Section 272 affiliates. Obtained a list of all business unit Section 272 compliance coordinators as of July 2003. In addition, SBC maintained a company-wide Section 272 Compliance Program that included a designated Compliance Coordinator for the business units and the Compliance Coordinator's responsibilities included training.

Interviewed those employees responsible for developing and recording in the books or records of the carrier transactions affected by these rules and noted that they were aware of and demonstrated knowledge of the Section 272 requirements and affiliate transaction rules. These employees included eleven employees of SBC Services, Inc. that are assigned to the Affiliate Oversight Group. three employees that are responsible for affiliate transactions for the Ameritech BOCs, two employees that are responsible for affiliate transactions for SNET, four employees that are responsible for affiliate transactions for SWBT and two employees that are responsible for affiliate transactions for Pacific Bell and Nevada Bell. Noted that the individuals interviewed above were part of SBC's Affiliate Oversight Group and Regulatory Accounting and were supervised by SBC's Executive Director of Regulatory Accounting.

4. Obtained a listing of all written agreements for services and for interLATA and exchange access facilities provided under affiliate agreements and contracts between the SBC

BOCs and the Section 272 affiliates that were in effect during the Audit Test Period. Noted which agreements were still in effect Attachment A-1 lists all agreements that terminated during the Audit Test Period and indicates the termination date. SBC represented that no agreements were terminated prematurely during the Audit Test Period because the service agreements between the SBC BOCs and the Section 272 affiliates are not term agreements.

Inquired and documented that there were three incidents where an SBC BOC provided services to a Section 272 affiliate without a written agreement:

- One instance was discovered upon the Affiliate Oversight Group's review of affiliate transactions Certain limited Equal Employment Opportunity employee services performed by Illinois Bell payroll personnel for ACI employees were identified that were not provisioned with a written agreement or appropriately billed between January 2000 and July 2002. In 2002, affiliate agreements were developed and posted and retroactive billing was completed.

- Additionally, from June 2001 through June 2002, certain information technology work (standard customer account record exchange[8] testing[9]) performed by Ameritech Services, Inc. payroll employees was being billed from Ameritech Services, Inc. to SBCS. A further review of the work being performed by the SBC legal department determined the work involved a BOC product, Customer Account Record Exchange ("CARE"). Therefore, the SBC legal department determined that this service should have been billed from the BOC via an affiliate agreement, and the service should have been made publicly available. Affiliate agreements already in place between SBCS and Illinois Bell and Michigan Bell were modified to include standard care testing and the revised agreements were posted in December 2002. New affiliate agreements between SBCS and Indiana Bell, Ohio Bell and Wisconsin Bell were developed and posted in December 2002. In December 2002, the five Ameritech BOCs[10] retroactively billed SBCS for these services.

- SBC represented that on October 30, 2001, SBCS began receiving CARE services from Nevada Bell but had no executed agreement for the CARE services during Engagement Period. Nevada Bell billed SBCS for the CARE services since the inception of the service. An agreement, "Basic CARE Services," was executed

[8] The "customer account record exchange" or "CARE" is the SBC BOC system using industry standard data records to exchange information with interexchange carriers about customers pre-subscribed to the interexchange carrier.
[9] "Standard CARE testing" involves testing with fictitious account information and performed with the other carriers account information to validate the other carrier's ability to process customer account record data
[10] The "Ameritech BOCs" refer to Illinois Bell Telephone Company, Indiana Bell Telephone Company, Incorporated, Michigan Bell Telephone Company, The Ohio Bell Telephone Company and Wisconsin Bell, Inc., collectively

between SBCS and Nevada Bell on December 11, 2003 and was posted to the SBC Internet site as of December 12, 2003

Obtained a listing of all written agreements, amendments and addendums (collectively, "agreements") that became effective during the Audit Test Period. Noted that there were 222 items included in the listing. From this listing, randomly selected 80 agreements and obtained copies of the selected agreements

5 Using the sample of 80 agreements selected in procedure 4 above, viewed each Section 272 affiliate's section of the SBC Internet site, www.sbc.com, and compared the prices, terms and conditions of services and assets shown on this site to the copies obtained in Procedure 4 above. For 78 of the 80 agreements, noted no differences. No comparison could be made for two agreements, as they could not be located on the SBC Internet site. These agreements terminated during the Engagement Period and had been removed from the SBC Internet site. SBC represented that their policy is to remove agreements from the Internet after the agreement has been terminated for one year Table 1 below lists the agreements that could not be located

Table 1 – Affiliate Agreements Not Located on the SBC Internet Site

Agreement Name	Termination Date
PIC Care, Schedule 423 – Michigan Bell to SBCS	December 6, 2001
Global Sales Support, Schedule 625 – Pacific Bell to SBCS	August 21, 2001

Physically inspected the information made available for public inspection at the principal place of business for each SBC BOC. The locations listed are listed in Table 2 below. SBC represented that the central files of all required affiliate agreements are maintained on the SBC Intranet site http://ebiz2.sbc.com:81/aog/index.html for all states, with the exception of Connecticut where SBC maintained hard-copy files, and each BOC headquarters, as well as all other SBC locations, have access to this site. For 75 of the 80 agreements obtained in Procedure 4 above, noted no differences between the copies of the agreements obtained and the agreements viewed on the SBC Intranet site at the BOC headquarters Physically inspected copies of the five agreements selected between SNET and SBCS at the SNET headquarters site and noted no difference between the copies of the agreements obtained in Procedure 4 above and the agreements viewed at SNET's headquarters. The Company did not make any claim of confidentiality for nondisclosure.

Table 2 – BOC Headquarters - Central File Locations

SBC BOC	Address	City, State
SWBT	530 McCullough	San Antonio, Texas
Nevada Bell	645 E. Plumb Lane, B120	Reno, Nevada
Pacific Bell	140 New Montgomery, 2501	San Francisco, California
SNET	310 Orange Street	New Haven, Connecticut

SBC BOC	Address	City, State
Illinois Bell	225 E. Randolph, 29C	Chicago, Illinois
Indiana Bell	240 N. Meridian Street, Room 1483	Indianapolis, Indiana
Michigan Bell	444 Michigan Avenue, Room 1550	Detroit, Michigan
Ohio Bell	45 Erieview Plaza, Room 1500	Cleveland, Ohio
Wisconsin Bell	722 N. Broadway, Floor 13	Milwaukee, Wisconsin

Using the sample of 80 agreements selected in Procedure 4 above, documented in the working papers the dates when the agreements were signed and/or when the services were first rendered (whichever took place first) and the dates of posting on the Internet. Noted that ten (12.5%) of the 80 agreements tested were posted to the SBC Internet site more than ten days after their effective date. Since this 12.5% error rate exceeded the expected error rate of 1% used to determine the sample size, consulted with the Joint Oversight Team and determined to expand testing to cover the entire population of 183 agreements posted to the Internet during the Audit Test Period[11]. From the additional testing noted 3 additional late postings. Attachment A-2 lists the 13 affiliate agreements that were posted to the Internet more than ten days after their effective date.

For the affiliate agreement, "IP/PI Master License & Sharing Agreement" between Wisconsin Bell and SBCS, effective November 3, 2000, noted that this agreement was re-posted to the SBC Internet site on November 16, 2001. SBC represented that during a review of agreements posted to the SBC Internet site they determined that the link to this agreement was not functional, however the summary of the agreement and the pricing methodology were still listed on the Internet. The agreement was re-posted on November 16, 2001 to correct this problem. This agreement was reviewed in conjunction with Ernst & Young's Prior Report for the period July 10, 2000 to July 9, 2001 dated December 17, 2001 and was determined to be available on the SBC Internet site as of March 29, 2001.

Documented in the workpapers the procedures that the Section 272 affiliates have in place for posting these transactions on a timely basis and noted that these procedures are posted on the SBC Internet site at:

http //www sbc.com/PublicAffairs/PublicPolicy/Regulatory/affdocs/MethodsProc-Rev.doc

Noted that SBC posted entire affiliate agreements on the SBC Internet site. Noted that all the details needed to allow evaluation for compliance with the FCC's accounting rules were made available in these agreements. Noted that the Internet posting of the agreements included rates, terms, conditions, frequency, effective dates, termination

[11] During the Audit Test Period, some affiliate agreements covered more than one SBC BOC and Section 272 affiliate These multiple SBC BOC/Section 272 affiliate agreements, while counted separately in the count of affiliate agreements cited in Objective V,VI, Procedure 4, are only counted as one Internet posting

dates, description of services and method of pricing. Noted that the Internet posting of affiliate agreements included enough detail to evaluate compliance with the FCC accounting rules.

In addition to the late postings noted in Attachment A-3, SBC disclosed the following known instances of late Internet postings that were not included in the population of agreements tested above

- SBCS received two tariffed services, Interexchange Carrier Pays service and Billing Name and Address service, from SWBT, Pacific Bell and Nevada Bell and one tariffed service, Interexchange Carrier Pay service from Ameritech during the Engagement Period. These tariffed services were not listed as affiliate transactions on the SBC Internet site during the Engagement Period. SBC listed these tariffed services as affiliate transactions on the SBC Internet site as of December 12, 2003.

- An affiliate agreement between Ameritech and SBCS for On Line Inquiry services was effective on March 26, 2003, but was not posted on the SBC Internet site until November 19, 2003.

- SBCS's agreement, "Service Agreement for CARE Products," with Pacific Bell was effective April 12, 2001 but was not posted to the SBC Internet site during the Engagement Period. SBC represented that this agreement was posted on December 12, 2003.

- An affiliate agreement, "Service Agreement for CARE Products," was executed between SWBT and SBCS on May 13, 2002, but was not posted to the SBC Internet site until December 12, 2003

- SBCS and SWBT executed an Interexchange Customer Online Data Exchange ("ICODE") agreement that was effective October 22, 1998. Service was discontinued on August 30, 2002. However, after a due diligence search, SBC cannot determine whether this agreement was posted to the SBC Internet site or included in the Central Files during the Engagement Period.

6. Obtained a listing and dollar amounts of all nontariffed services rendered by month by each SBC BOC to each Section 272 affiliate during the Audit Test Period and identified services made available to the Section 272 affiliate that were not made available to third parties and which services were made available to both the Section 272 affiliate and to third parties. Determined that the services not made available to third parties included only joint marketing activities.

   a. For services not made available to third parties (joint marketing), randomly selected 90 billing items out of 959 billing items identified above for the Audit Test Period.

a For services not made available to third parties (joint marketing), randomly selected 90 billing items out of 959 billing items identified above for the Audit Test Period. For each selected item, determined whether the amounts recorded for the sampled services in the books of the SBC BOC were in accordance with the affiliate transactions rules of the Commission. Compared unit charge to Fully Distributed Cost ("FDC") or Fair Market Value ("FMV") as appropriate. Noted that the sampled amounts were priced at the higher of FDC or FMV in accordance with the affiliate transaction standards and were recorded in the books of the SBC BOCs in accordance with the affiliate transaction standards, except as listed below:

- Noted in the July 2002 billing from SWBT to SBCS for Premise/Small Business Sales Support services, the rate per hour used for billing was $20.80 per the invoice compared to the FDC rate of $20.08 per hour. This resulted in SWBT overbilling SBCS by $16,466 for the month of July 2002. Noted that SWBT corrected this overbilling by issuing a credit on SBCS' September 2003 invoice.
- Noted in the October 2002 billing from SWBT to ACI for Premise Sales Support services, the rate per record used for billing was $0.25, when the FMV rate was $0.025. This error resulted in SWBT overbilling ACI by $191,642 for the month of October 2002. Noted that SWBT corrected this overbilling by issuing a credit on SBCS' June 2003 invoice.
- Noted in the March 2003 billing from Pacific Bell to SBCS that the 13% surcharge on employee referrals required by the California Public Utility Commission's affiliate transaction rules was incorrectly calculated. The error resulted in Pacific Bell overbilling SBCS by $118,428 in March 2003. Also noted that Pacific Bell corrected this overbilling by issuing a credit for this amount on SBCS' May 2003 invoice.

b. Selected all invoices that include the services sampled in procedure (a) above and one month's invoice, randomly selected, for the following SBC BOCs and Section 272 affiliates since no transactions between them were selected in procedure (a) above:

- SNET to SBCS – November 2001
- Michigan Bell to ACI – April 2002
- Michigan Bell to SBCS – February 2003
- Wisconsin Bell to ACI – September 2001
- Wisconsin Bell to SBCS – October 2001
- Ohio Bell to ACI – February 2002
- Ohio Bell to SBCS – December 2001
- Illinois Bell to ACI – July 2001
- Indiana Bell to ACI – June 2002

For each invoice selected, compared the amounts recorded for the invoice in the books of the SBC BOC to the amounts recorded for the invoice in the books of the Section 272 affiliate, and the amounts the Section 272 affiliate paid to the SBC BOC for the same invoice. Payment of the sampled billed amounts by the Section 272 affiliate was verified by tracing the amount billed for service on the monthly invoice rendered by the SBC BOC to a payable account on the Section 272 affiliate's general ledger, and then noted that the invoice amount was cleared from the Section 272 affiliate's payable account through the month-end cash settlement journal entry prepared by the parent company, SBC Communications Inc. Noted that the month-end cash settlement journal entry processes cash transfers to clear the receivables and payables between the SBC BOCs and affiliates. For the tested invoices, noted no differences between the amount the billed and recorded by the SBC BOC, the amount the Section 272 affiliate recorded as expense and the amount paid by the Section 272 affiliate to the SBC BOC.

7. The following procedures were performed related to services provided to the SBC BOCs from the Section 272 affiliates:

a. Obtained a listing of all services billed by month, by invoice to the SBC BOCs by SBCS during the Audit Test Period. Randomly selected a sample of 100 invoices from all invoices in the population greater than $100, and selected the largest item on each invoice for testing. Prepared a distribution spreadsheet of the 100 selected invoices by state and noted the following distribution per state:

- One invoice for Arkansas;
- One invoice for Kansas;
- Two invoices for Nevada;
- Three invoices for Oklahoma;
- Fourteen (14) invoices for California;
- Thirty-five (35) invoices for Missouri, and,
- Forty-four (44) invoices for Texas.

In order to complete the procedure per the instructions from the JOT to test at least three services per state, selected additional services from the selected invoices for Arkansas, Kansas, Nevada and Oklahoma. In total, compared the rates charged for 136 services to the appropriate FDC or FMV rate and noted the following:

- 116 of the 136 services tested were priced at the lesser of FDC or FMV and were recorded in the books of the SBC BOCs in accordance with the affiliate transactions rules;
- 16 of the 136 services tested were private line or access and data services. SBCS represented that these services are purchased from third parties and passed through to the SBC BOCs. SBCS indicated that rates are determined from quotes obtained from the third parties. SBCS obtains the quote, applies a mark up percentage and submits the total rate to the customer, in this case the SBC BOC, for approval prior to initiating service. Determined that the quotes

provided by SBCS to the SBC BOCS agreed to the quote rate documentation provided by SBCS. SBCS provided an FDC study supporting detail on the mark up percentages applied to the quoted rate for 7 of these 16 line items. For 9 of the 16 line items, the mark-up rates used did not agree to the FDC study provided by SBCS. Therefore no determination could be made as to whether these rates were in compliance with the affiliate transaction rules; and,

- 4 of the 136 services tested were priced at rates different than the lesser of the FDC or FMV rate. These differences are listed on Attachment A-3a1

SBCS represented that for three of four differences noted above, the affiliate billing plan was not properly reflected on the SBC BOC account and resulted in an overbilling to the SBC BOC. SBCS corrected one of these overbilling differences in August 2002 and indicated the Company plans to correct the other two billing errors in 2003. SBCS represented that one of the four differences resulted from the account not being properly identified as an affiliate account. SBCS plans to write off the remaining balance of this account.

Requested payment support from the SBC BOCs for the 100 SBCS invoices selected above. For 50 of the 100 invoices, noted no difference between the amounts billed from SBCS and amounts the SBC BOCs paid for the same services to SBCS. For 8 of the 100 invoices, differences were noted in the paid amounts per invoice provided by the SBC BOC and the amount billed by SBCS. For 42 of the 100 invoices, the payment support provided by the SBC BOC was a listing of check amounts paid by the SBC BOCs to SBCS. Since many of the check amounts were for multiple invoices, the payments of individual SBCS invoices could not be agreed to the check amounts listed on the payment support. Differences noted are listed on Attachment A-3a2.

b. Obtained a listing of all services billed by month, by invoice and service to the SBC BOCs by ACI during the Audit Test Period. Randomly selected three invoices for each service, 233 service items on 33 invoices, billed by ACI to the SBC BOCs during the Audit Test Period. Compared the unit charges for each selected service to FDC or FMV rate, as appropriate, to determine whether these services were recorded in the books of the SBC BOCs in accordance with the affiliate transactions rules. Noted the following:

- Rates for 130 of the 233 services tested were priced at the lesser of FDC or FMV and were recorded in the books of the SBC BOCs in accordance with the affiliate transactions rules;
- Rates for 44 of the 233 services tested were priced at rates higher than the rate supported by the FDC or FMV studies provided by SBC. These differences are listed on Attachment A-3b; SBC represented that 24 of these 44 rate differences occurred in 2001 and early 2002 and resulted from limitations of

the Saville billing system. The Saville system only accepted rates divisible by 6 ACI billed a rate divisible by 6 that was rounded up from the supported FDC/FMV rate This system limitation has been resolved by SBC.

- Rates for 11 of the 233 services could not be tested, as no FDC or FMV information was provided by SBC. SBC represented that these rates were for services carried network facilities no longer owned by ACI and rate support was not available
- 26 of the 233 services tested were international services. The rates charged for these international services could not be determined and no FDC and FMV rate studies were provided by SBC; and,
- 22 of the 233 services tested were Operator Services. SBC did not provide FDC or FMV rate support for Operator Services.

For the 33 invoices tested above, noted no differences between the amounts the SBC BOCs recorded for the services in their books of account and the amount the SBC BOCs paid for the same services to ACI.

8 Obtained, as of March 31, 2003, the balance sheet of SBCS and a detailed listing of all fixed assets and performed the required procedures as documented in Objective I, Procedure 5 above. SBC represented that, during the Audit Test Period, there was a transfer of furniture from Illinois Bell to ACI. This furniture was recorded in ACI's fixed asset accounts that were consolidated into SBCS's records when the two Section 272 affiliates merged in December 2002. SBC represented that no other items were either directly or indirectly purchased or transferred from the SBC BOC or from other affiliates to the Section 272 affiliates during the Audit Test Period.

In 1999, ACI originally purchased furniture at a cost of $230,110 and transferred it to Illinois Bell due to the delay in the launch of long distance in the Ameritech region. From 1999 through October 2002, Illinois Bell owned and depreciated this furniture. During 2002, the ACI customer service call center located in Rosemont, Illinois was relocated and expanded This relocation and expansion required additional furniture. In October 2002 ACI repurchased the furniture it had originally sold to Illinois Bell in 1999 for $195,310, the FMV, which was then determined to be the higher of the net book value and the FMV at the date of the transfer. SBC based the determination of FMV on an appraisal prepared by a third-party vendor at the time of the transfer. Obtained documentation supporting the transferred furniture's NBV and FMV. Noted that the transfer was properly recorded by Illinois Bell at FMV, and documented that FMV was higher than NBV at the time of the transfer Obtained a copy of the transfer's Memorandum of Understanding posted on SBC's Internet site. SBC represented that the public disclosure of the transaction on the SBC Internet site served as notification to unaffiliated entities of the opportunity to obtain comparable assets at similar rates, terms and conditions as were made available to ACI.

9 SBC represented that the SBC BOCs did not provide to the Section 272 affiliates any assets and/or services priced pursuant to Section 252(e) or statements of generally available terms pursuant to Section 252(f) during the Engagement Period.

10 SBC represented that no part of the SBC BOCs' Official Services[12] network was transferred or sold to a Section 272 affiliate from July 10, 2001 through the end of the Engagement Period.

[12] Official Services mean those services permitted by the United States District Court for the District of Columbia in United States v Western Electric Co Inc See 569 F Supp 1057, 1098, n 179 (1983) (defined as "communications between personnel or equipment of an Operating Company located in various areas and communications between Operating Companies and their customers"), and its progeny.

<u>OBJECTIVE VII</u>. Determine whether or not the BOCs have discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities and information, or the establishment of standards.

1 SBC has represented that, during the Audit Test Period, there was one SBC BOC procurement award from the SBC BOCs to the Section 272 affiliates. This award was for public telephone long distance service. Noted that four unaffiliated entities and SBCS responded to the SBC BOCs' request for proposal ("RFP"). Noted that one of the four unaffiliated entities refused to propose on the prison payphone portion of the RFP. Obtained and inspected the SBC BOCs' procurement award to SBCS. Noted that the final executed agreement for public telephone long distance services was between SBC Services, Inc., acting as agent for the SBC BOCs, and SBCS. Obtained and inspected the proposals submitted by the Section 272 affiliate and the four unaffiliated entities. The results of the decision matrix scoring used by the SBC BOCs to differentiate between SBCS's proposal and the four unaffiliated entities' proposals are listed in Attachment A-4. Discussed with SBC BOC representatives how the selection was made, reviewed the proposals and the scoring of each proposal in the decision matrix used by the SBC BOCs. Noted that the same decision matrix and evaluation weighting methodology was used to evaluate all proposals Noted that SBCS scored the highest on the decision matrix compared to the evaluation of the four unaffiliated entities' proposals. Obtained SBC's written procurement procedures and compared the RFP and the RFP evaluation process to SBC's written procurement procedures. Noted that the RFP and the RFP evaluation process complied with SBC's written procurement procedures.

2. Obtained a list of all goods, services, facilities, and customer network services information, excluding CPNI as defined in Section 222(f)(1) of the Act and exchange access services and facilities inspected in Objective IX, made available to each Section 272 affiliate by the SBC BOCs. SBC has represented that the media used to inform unaffiliated entities of these services is the SBC Internet site, which contains a listing of services provided under tariff, contracts and affiliate agreements Obtained a list of 457 agreements under which all goods, services, facilities and customer network services information were provided to the Section 272 affiliates during the Engagement Period. For a random sample of 85 agreements from this list, inspected the SBC Internet site on August 5, 2003 to determine if the agreements were included on the SBC Internet site. Noted that all agreements selected were located on the SBC Internet sites at <u>http://www.sbc.com/ or https://www sbcprimeaccess.com</u>.

3. Obtained a list from the SBC BOCs of all unaffiliated entities who have purchased the same goods as the Section 272 affiliates, including software, services, facilities and customer network services information (excluding CPNI) from the SBC BOC, except for exchange access services and interLATA network services that are the subject of other procedures. Noted that the services listed below were purchased by both the Section 272 affiliates and unaffiliated entities during the Engagement Period:

- Local Exchange Services from all SBC BOCs to SBCS and ACI
- Billing and Collections ("B&C") Services from all SBC BOCs to SBCS and ACI
- Account Maintenance Services from all SBC BOCs to SBCS and ACI
- Enhanced Service Provider Care from SWBT and Pacific Bell to SBCS
- Subscription Agreement from SWBT to SBCS and Ameritech BOCs to ACI and SBCS
- Billing Name and Address Agreement from SWBT to SBCS and Ameritech BOCs to ACI and SBCS
- Universal List Agreement from SWBT to SBCS
- Data Gathering through Care Agreement from SWBT to SBCS
- Enhanced Care Services from Pacific Bell to SBCS
- On Line Inquiry from Ameritech BOCs to ACI and SBCS
- Service Agreement from Pacific Bell to SBCS
- Equal Access Consulting Services from SWBT to SBCS
- ICODE service from SWBT to SBCS

a Obtained a listing of billings to unaffiliated carriers and SBCS for the services listed above, except B&C and Local Exchange Service, for the months of April 2003 through June 2003. SBC could not produce a listing of these billings for the Engagement Period, therefore extrapolated from the April 2003 through June 2003 bill listing a population of these billings for the Engagement Period. Obtained a listing of B&C billings to unaffiliated carriers and the Section 272 affiliates for the Engagement Period. Combined the extrapolated Engagement Period population of services other than B&C and the B&C Engagement Period population and randomly selected 100 billings to unaffiliated carriers. The sample was selected from Engagement Period data, rather than Audit Test Period data as called for in the procedure. Compared the rates, terms and conditions on the sample of 100 billings to unaffiliated carriers to 20 comparable billings to SBCS and noted two differences in rates, as listed below:

- The rate charged to an unaffiliated carrier by SWBT on its October 2002 billing for "Interstate Bills Rendered" was $0.4099 per unit compared to $0.4132 per unit billed to SBCS SBC represented that this rate difference was due to SWBT's error in correcting the contract rate with the unaffiliated carrier. SBC represented that SWBT corrected this error effective with the November 2002 invoices to the unaffiliated carrier.

- The rate charged to an unaffiliated carrier by the Ameritech BOCs on its December 2001 billing for "Account Maintenance CIC" was $0.055 per unit compared to $0.045 per unit billed to SBCS. SBC represented that this rate difference was due to two factors:

- SBCS signed a three-year agreement at the standard offered rate of $0.045 per unit; and

- The unaffiliated carrier signed a one-year agreement at the standard offered rate of $0.050 per unit. Due to budget constraints, the unaffiliated carrier requested that SBC bill them $0.045 for the last six months of 2001 and $0.055 for the first six months of 2002. The unaffiliated carrier should have been billed at the rate of $0.045 in the December 2001 billing, but SBC incorrectly applied the 2002 rate to the December 2001 invoice.

For 16 of the 20 SBCS billings used in the above comparison, compared the amount billed to SBCS by the SBC BOCs to the amounts paid by SBCS and noted that one invoice was underpaid by $176.87. SBC represented that this payment difference was due to a billing dispute. Payment support for 4 of the 20 SBCS billings totaling $531.33 used in the above comparison was not provided by SBCS.

b. For local exchange services, obtained a list of services billed to SBCS by Universal Service Order Codes ("USOCs") in June 2003. This list included 217 unique rates billed by USOC and class of service and represented 1,332 billed items to SBCS. Selected a random sample of 81 of the unique rates by USOC and class of service that were used in 427 of the 1,332 billed items. Compared the 81 selected rates to the applicable tariff rates and noted the following:

   - For 60 of the 81 rates selected, noted no differences in the rate charged and the tariffed rate.
   - For 15 of the 81 rates selected, the rates charged did not agree to the tariffed rates. These differences are listed on Attachment A-5.
   - For 6 of the 81 rates selected, SBC represented that these rates were for 911 services, inside wire fees, and other fees that are not tariffed services, therefore these rates were compared to other published rates. No differences were noted.

   Compiled a list of invoices to SBCS on which the sampled items appeared and randomly selected 25 invoices and documented the amount billed to SBCS and the amount paid by SBCS. For 21 of the 25 invoices, noted no differences between the amount billed and the amount paid. For 4 of the 25 invoices, payment support was not provided by SBCS.

4. Documented that the SBC BOCs' process for disseminating information pursuant to CC Docket No 96-149, First Report and Order, Para. 16, about network changes, the

establishment or adoption of new network standards and the availability of new network services to each Section 272 affiliate and to unaffiliated entities are centralized with the SBC Network Services organization. The Network Services organization is made up of employees from SBC Management Services, Inc. Network Services maintains an internal Intranet page that documents the business requirements, criteria, and process flows for disseminating network standards. The Network Services organization also maintains an external web page, located at www.sbc.com/Public_Affairs/, used to notify unaffiliated entities and Section 272 affiliates of new network disclosures. These disclosures include information regarding network changes, the establishment or adoption of new network standards, and the availability of new network services. SBC posts Accessible Letters to this webpage. SBC's procedures address dissemination of information to both the Section 272 affiliates and unaffiliated entities via SBC's Internet site. SBC uses Internet postings and accessible letters to notify all unaffiliated entities, including the Section 272 affiliates. SBC's procedures address dissemination of information to both the Section 272 affiliates and unaffiliated entities. Noted that the documentation supporting the SBC BOCs' process for notification of network changes contains no distinction between notification processes for Section 272 affiliates and unaffiliated entities.

Once a project plan is reviewed, SBC's Legal and Regulatory departments determine whether notice is required. If notice is required, the project is control numbered, then determined as either short-term or long-term Then the notification document is prepared and the project is forwarded on to the Facility Equipment Engineer for preparation of the project package and to the Engineering Single Point of Contact ("SPOC") The Engineering SPOC reviews the notification document for compliance and then forwards the notification document to the regulatory department. The regulatory department then files the notification document for all long-term projects with the FCC. The regulatory department informs all telephone exchange providers of short-term projects by mail, and then files the notification document for short-term projects with the FCC after five days. These notices are posted on the SBC Internet site at http://www.sbc com/PublicAffairs. This section of the site is organized by SBC network disclosures, then by each SBC BOC.

5. Obtained and inspected scripts that SBC BOCs' customer service representatives recite to new customers calling to establish new local telephone service or move an existing local telephone service to another location within the BOC in-region territory from the call centers observed in procedure 6 below. Per review of these scripts, noted that the scripts contained the following:

- language that attempts to sell interLATA services;
- language that informs the consumers that there are other providers of interLATA services; and
- language offering to identify the other providers to the consumer if they are interested.

SBC represented that if a customer is interested in hearing the list of other providers, the call center representative clicks a button on the computer screen and a list of all the interLATA service providers is randomly generated and appears on the computer screen. SBC represented that the call center representatives are instructed to read the list of providers until the customer stops them. Noted that because the list is randomly generated every time the customer requests this information, the providers are listed in different order so that all providers have the same chance of being read to customers first.

Obtained and inspected the written content of the SBC BOC Internet site for online ordering of new service or to more an existing local telephone service, www.sbc com, noting that the consumers are informed on the Internet that there are other providers of interLATA service. Further noted that the customer can click on a link that lists the other providers randomly.

6. Obtained a complete listing as of the end of the Audit Test Period, of all SBC BOC sales and support customer service call centers. From the listing, with SBC's assistance, compiled a list of SBC BOC call centers responding to inbound callers requesting to establish new local telephone service within the BOC in-region territory. From this listing, identified and grouped each call center by type of customers: "Consumer"; "Business", or, "Global."

   a. Using a random number generator, selected six Consumer call centers and four Business call centers from the list obtained above. Listened in on a total of 102 calls from callers requesting to establish new local telephone service or to move an existing local telephone service. Noted the following:

      - For 92 calls, the sales representative informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of their right to make the selection.
      - For six calls, the customer interrupted the sales representative before the representative mentioned long distance services and requested his service to remain the same.
      - For two calls, SBC could not provide local service at the requested address and the calls terminated before discussing the long distance service.
      - For one call, the customer requested SBC long distance before the representative mentioned long distance service.
      - For one call, the customer asked for information about SBC long distance before the representative marketed SBC long distance; the representative provided the SBC long distance information but did not inform the customer of their right to choose long distance providers.

   b. For the Global Sales Channel, obtained Global Sales Channel's Sales Disclosure Guidelines and noted that the equal access notification informing customers that they have a choice to select the InterLATA services provider is included in the guidelines. Also noted that the guidelines state that the equal access disclosure is to be given to inbound customers requesting to establish new local telephone service or to move an existing local telephone service to another location within the BOC in region territory. Noted that the Sales Disclosure Guidelines state that the customer service representatives are subject to periodic performance monitoring of their incoming calls by a manager for adherence to the Sales Disclosure Guidelines.

c. From the listing obtained above, determined which call centers might incidentally respond to inbound callers requesting to establish new local telephone service or to move an existing local telephone service (such as sales and service centers that usually receive customer inquires from existing customers). From this list of call centers, randomly selected three Consumer centers and two Business call centers. Listened in on a total of 110 calls: 20 calls per center at two Consumer centers and two Business centers and 30 calls at one Consumer center. Noted the following:

   - Two calls requested new service. In one call, the customer service representative informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of his right to make the selection. One new service call was terminated by the customer before the discussion of long distance service.
   - Three calls requested an additional line to be added to existing service. In these calls, the customer service representative informed the customer of other providers of intraLATA and/or interLATA services and informed the customer of his right to make the selection.
   - One call requested a move in service, but the existing and new service was for inbound service only, therefore no long distance service was active on the account.
   - Thirty-eight (38) calls requested changes in existing service.
   - Eighteen (18) calls related to billing questions.
   - Forty-eight (48) calls were other miscellaneous existing service requests.

7 Requested a listing of all call centers in which representatives of third-party contractors of the SBC BOC respond or might incidentally respond to customers requesting to establish new local telephone service or to move existing service. SBC has represented that the Consumer sales organization used third-party contractors for outbound campaigns to contact existing or former customers to promote and take orders for specific service campaigns. Third-party contractors may periodically be used on an overflow basis to accept inbound calls when call volumes temporarily exceed normal levels. The third-party contractors may accept the call from existing customers but not do not have access to the SBC BOC systems needed to accept and create an order for a new connect, or to transfer service to a new location.

8. SBC has represented that there are no third-party contractors hired for inbound telemarketing in association with establishing new telephone service or moving existing local telephone service, therefore there are no controls in place to assure compliance of third-party contractors with Section 272

9 Requested copies of the contracts between SBC BOCs and third-party contractors that provide telemarketing. SBC has represented that there are no third-party contractors hired for inbound telemarketing in association with establishing new telephone service or moving existing local telephone service.